ANNUAL REPORT 1968

KERR ADDISON MINES LIMITED

FOR THE YEAR ENDED DECEMBER 31ST.

Kerr Addison Mines Limited

Directors

John R. Bradfield, LL.D., Toronto, Ont.
M. S. Fotheringham, Port Arthur, Ont.
Edward Futterer, Toronto, Ont.
K. C. Gray, Toronto, Ont.
Harold H. Leather, M.B.E., Hamilton, Ont.
J. P. W. Ostiguy, Montreal, Que.
J. A. H. Paterson, Toronto, Ont.
R. V. Porritt, Toronto, Ont.
W. H. Rea, Toronto, Ont.
W. S. Row, Toronto, Ont.
W. Dent Smith, Toronto, Ont.
J. H. Stovel, Toronto, Ont.

Officers

W. S. Row, *Chairman of the Board*
J. H. Stovel, *President*
Edward Futterer, *Vice-President and General Manager*
R. D. Stewart, *Secretary*
B. C. Bone, *Treasurer*
J. B. Sage, *Assistant Secretary*
I. D. Bayer, *Assistant Treasurer*
P. M. Kavanagh, *Vice-President — Exploration*

Head Office and Exploration Office

Suite 1600 - 44 King St. West, Toronto 1, Ont.

Transfer Agents and Registrars

Canada Permanent Trust Company, 1901 Yonge Street, Toronto 7, Ont.
Registrar & Transfer Company, 140 Cedar Street, New York, N.Y.
Registrar & Transfer Company, 15 Exchange Place, Jersey City 2, N.J.

Auditors

Clarkson, Gordon & Co., 15 Wellington Street West, Toronto, Ont.

Annual Meeting

Friday, April 18th, 1969, 12:00 Noon at the Sheraton Room,
King Edward Sheraton Hotel, Toronto, Ontario.

Directors' Report:

To the Shareholders:

Your Directors submit herewith the Annual Report of your Company covering the year ended December 31, 1968.

Financial

On April 30, 1968, your Company purchased all the undertakings and assets of Quemont Mining Corporation, Limited and Normetal Mining Corporation, Limited, by the allotment and issue of 2,400,047 treasury shares of Kerr Addison.

Net profit was 71 cents per share. One dividend of 10 cents and three dividends of 14 cents per share were paid. Quemont and Normetal paid one dividend of 12 cents per share and 9 cents per share respectively during the first quarter of 1968.

As a result of the acquisition of Quemont and Normetal during the year and because of a technicality in the Income Tax Act, no shareholders' depletion allowance will be available on dividends paid by Kerr Addison during the year 1969. It is expected that the allowance will be restored in 1970.

At year-end the net value of liquid assets, including bonds and shares totalling $89,643,000 at quoted market prices and supplies and prepaid items at cost, amounted to $99,289,000 equivalent to $10.42 per share outstanding.

The Managers' Reports on the Kerr Addison Mine, the Normetal Mine and the Quemont Mine are contained herein.

The Kerr Addison Mine

The output of gold was 179,943 ounces compared to 199,245 ounces in the previous year. The average daily tonnage treated declined from 1,417 in 1967 to 1,395 last year, with an average grade of 0.36 ounces of gold per ton compared to 0.39 ounces in the previous year.

At year-end, estimated ore reserves were 3,249,128 tons averaging 0.46 ounces of gold per ton compared to 3,750,329 tons averaging 0.45 ounces a year earlier.

Since the latter part of May, gold has been sold on the free market instead of to the Mint and consequently has not qualified for assistance payments under the Emergency Gold Mining Assistance Act. Gold sales to the Mint were 70,642 ounces at an average price of $37.90 per ounce with an estimated rate of assistance of $4.61 per ounce for a total of $42.51 per ounce. The remaining 109,301 ounces were sold at an average price per ounce of $43.37, or $1.19 per ounce more than would have been received had this gold been sold to the Mint.

The Normetal Mine

The average daily tonnage treated was 991 tons per day compared to 957 tons in the preceding year.

Ore reserves at year-end were 1,198,000 tons compared to 1,595,000 a year earlier. In addition to the tonnage mined, 38,000 tons of marginal ore were removed from reserves because the grade previously estimated was not realized.

The Quemont Mine

The average daily tonnage treated during 1968 was 1,173 compared to 1,216 in 1967.

Ore reserves at year-end were estimated to be 590,000 tons, a decline of 510,000 tons during the year or 81,000 tons in excess of the tonnage mined. Part of this reduction resulted from the removal of a block from ore reserves when it became necessary to seal off and fill an area in the East orebody due to deteriorating pillar conditions.

Metal Markets

Gold

Early in the year demand for gold became so strong that the various banks had to stop supplying

gold to the free market. A "two price" system was introduced on March 17 under which the official price remained at $35.00 (U.S.) per ounce. The free market price has subsequently fluctuated between $36.95 to $42.70 (U.S.).

Copper

It was generally anticipated that demand for copper would ease in 1968 following termination in April of the long industry-wide strikes in the United States. As a result, fabricators outside the U.S.A. reduced inventories in anticipation of lower prices. However, with the strength of worldwide economic activity in the last half of the year, buying pressure caused overseas prices to rise again. The U.S. price increased in January from 42 cents to 44 cents per pound. Although substantial new production is scheduled for 1969, prices are expected to remain firm for some months.

Zinc

Free world zinc production recorded an increase for the eighth consecutive year, up 3% to 4.4 million tons. Metal consumption after declining slightly in 1967, rebounded to 4.1 million tons, an increase of 9%.

Supplies eased temporarily around mid-year after production resumed at the U.S. smelters affected by the copper strike. However, high automobile production and better than expected demand for galvanized steel eliminated any surplus by the year-end.

The overseas price remained at the equivalent of 12¼ cents per pound, and the U.S. East St. Louis price was unchanged at 13½ cents until it was increased to 14 cents in January, 1969.

Uranium

New orders for nuclear electrical generating stations are following the pattern predicted a year ago and should result in a Free World cumulative demand for U_3O_8 of 500,000 tons by 1980. Although some new orebodies are being found, future demand is such that the price should rise above the present range of $7-$8 (U.S.) per pound when the releases from the U.S. Atomic Energy Commission stockpile cease in 1973. These releases are available to foreign as well as U.S. buyers at a price equivalent to $7.60 (U.S.) per pound without escalation. In addition, U.S. restrictions currently prohibit the enrichment of foreign uranium in the United States. The restrictions are expected to be lifted in 1973. Although no sales contracts have been signed for the sale of potential production from Agnew Lake Mines Limited, negotiations are underway with consumers in North America and abroad.

Exploration

A major exploration programme was carried out in Canada and to a lesser extent in the western United States. Results from several projects have prompted follow-up work this year.

Encouragement is being obtained from the drilling programme of the Fernandez Joint Venture on the 250,000 acre Fernandez Ranch in the Grants area of New Mexico on which mineral rights are held under lease. Participants in the Joint Venture are Keradamex, Inc., the U.S. exploration subsidiary of Kerr Addison with 26%, Norandex Inc., a U.S. subsidiary of Noranda Mines Limited with 25% and the Amerada Petroleum Corporation with 49%. Keradamex is manager of the Joint Venture. To the end of January of this current year seventy holes were completed for a total of approximately 110,000 feet.

Of seventeen deep reconnaissance holes drilled at widely spaced intervals, four have encountered uranium mineralization of sufficient thickness and grade, at depths of approximately 2,600 feet, to warrant closer spaced drilling to determine whether orebodies are present.

A series of forty-one relatively shallow holes, drilled at 200 foot centres on lines 400 feet apart,

has indicated a potential ore zone containing 1.35 million tons with a grade, by radiometric logging, of 2.3 pounds U_3O_8 per ton, an 11.5 foot average thickness, at a depth of 900 feet. The zone is not completely delimited.

Five of the remaining twelve holes have intersected thicknesses of the favourable host rocks containing minor mineralization and warranting follow-up drilling.

Further work is planned on an iron prospect in the Sioux Lookout area in northwestern Ontario in which Kerr Addison has a 70% interest.

Further metallurgical testing of materials from the Swim Lakes deposit in the Yukon was in progress at year-end.

Drilling is underway on five properties and is scheduled for three others. Major primary projects are planned for Ontario, Quebec, British Columbia, and the Yukon. In addition, Kerr Addison participates in the Icon Syndicate.

Subsidiary and Associated Companies

Joutel Copper Mines Limited

The year 1968 represented the first full year of normal mine production. The average daily tonnage treated was 662 averaging 2.5% copper compared to 675 averaging 2.1% copper during the last five months of 1967.

At year-end ore reserves were estimated to be 1,000,000 tons averaging 2.5% copper compared to 1,020,000 tons averaging 2.4% copper a year earlier.

Net income for the first full year of production was $1,029,000 as compared to $142,000 for the last five months in 1967. Working capital increased by $1,831,000 during 1968 after spending $237,000 on mine development and fixed assets and purchasing for retirement, $280,000 of the 6% income debentures. It is anticipated that the operation will generate sufficient funds to complete retirement of the 6% income debentures during 1970. The three year period of exemption from income taxes granted to new mines commenced on March 1, 1967.

Kerr Addison holds $2,112,500 of Joutel debentures and about two-thirds of the issued shares.

Icon Sullivan Joint Venture

The average daily tonnage treated in 1968, the first full year of production, was 529 tons containing 3.2% copper, about the same tonnage and grade as was treated the last seven months of 1967.

During the year, production came chiefly from the number one orebody which was initially an open pit, but is now being mined as an underground orebody by trackless mining methods. Production from the number three open pit area commenced in July. It is estimated that ore reserves at year-end were 880,000 tons containing 2.9% copper.

The net income for the first full year of operation was $2,278,000 compared to $1,544,000 for the last seven months of the previous year.

Kerr Addison's net interest in the Icon Sullivan Joint Venture is 21.4%.

Agnew Lake Mines Limited

Construction facilities to service the shaft sinking and initial mine development programme were completed in 1968. Buildings, equipment, and services were all of a permanent nature designed to be part of the overall mining and milling plant concept.

Facilities include a seven mile paved access road, power line, hoist room, power house, dormitory complex and a service building to house office, shops, warehouse and dry. The mill site area was cleared of timber. Ten houses for the initial staff members were constructed in the town of Espanola,

about 27 miles from the mine site. Expenditures to year-end amounted to $8,300,000.

Shaft sinking, including station cutting, commenced in July, and had reached a depth of 1,400 feet by the year-end. The initial lateral development programme to be carried out in conjunction with shaft sinking will commence in March 1969.

An adit was driven into the enclave area to obtain a bulk sample for hydro-metallurgical testing. Additional metallurgical test work is underway to permit process design and mill engineering to commence in 1969.

Diamond drilling for ore definition was started in the fourth quarter from upper level shaft stations.

As previously reported, based on surface diamond drilling, Zones 3 and 5 are estimated to contain to a vertical depth of 3,500 feet, 7,750,000 tons of 1.8 pounds U_3O_8 per ton on the Agnew Lake Mines property and an additional 1,400,000 tons of the same grade in an intervening Kerr Addison claim.

Kerr Addison holds an 80% interest in Agnew Lake Mines Limited.

Vangorda Mines Limited

Kerr Addison owns about two-thirds of the issued shares of this Company which holds 51 claims located in the Yukon Territory. No exploration work was done on the property during the year and the previously estimated tonnage of 9,400,000 tons averaging 3.2% lead, 4.9% zinc, 0.3% copper, 1.76 ounces of silver and 0.02 ounces of gold remains unchanged. A limited amount of diamond drilling was done during the summer to obtain fresh material for metallurgical testing now underway at two laboratories.

* * *

The problem of increasing taxation at both the provincial and federal levels and the threat of loss of special tax incentives in the federal field continue to be a matter of serious concern to the mining industry in Canada. Metals produced in this country are largely exported and must compete with metals from areas where taxation is low and inflation has been less severe.

It is with pleasure your Directors record their sincere appreciation of the work accomplished by the management and employees of the Kerr Addison Group of Companies.

On behalf of the Board,

W. S. ROW
Chairman

J. H. STOVEL
President

February 7, 1969

Toronto, Ontario

OPERATING PERSONNEL INCLUDING SUBSIDIARY COMPANIES

The Kerr Addison Mine	W. G. Hargrave	Manager
	S. R. Fredeen	General Superintendent and Chief Mining Engineer
The Normetal Mine	A. D. Dickson	General Manager
	R. J. Allen	Manager
	L. A. Gendron	Mine Superintendent
The Quemont Mine	A. D. Dickson	General Manager
	W. D. Jamieson	Manager
	M. C. Waterfield	Mine Superintendent
Joutel Copper Mines Limited	D. B. Campbell	Manager
	R. J. Beggs	Chief Engineer
Agnew Lake Mines Limited	M. D. Rowswell	Manager

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ASSETS

	1968	1967
Current:		
Cash and short-term notes	$ 4,003,928	$10,080,767
Marketable securities, at cost less amounts written off (quoted market value in 1968 $18,519,000 and $14,170,000 in 1967)	12,849,266	9,526,324
Bullion at realizable value	1,077,888	876,155
Concentrates and metals sold, in transit and on hand at estimated net returns under sales contracts	4,449,940	5,215,891
Accounts and interest receivable (including amounts due from unconsolidated subsidiaries of $131,341 in 1968 and $293,610 in 1967)	1,540,199	1,205,548
Total current assets	23,921,221	26,904,685
Investments:		
Partially owned subsidiary companies (note 3)	10,701,308	6,165,658
Other mining companies (note 4)	24,487,502	23,196,314
Icon Sullivan Joint Venture (note 5)	627,877	628,649
Sundry, at cost	671,050	224,083
	36,487,737	30,214,704
Fixed:		
Buildings, plant and equipment, at cost	31,156,143	31,130,165
Less accumulated depreciation	29,819,611	29,351,743
	1,336,532	1,778,422
Mining claims and properties (note 6)	1	2,453,136
	1,336,533	4,231,558
Deferred and Other:		
Exploration expenditures	617,493	497,283
Supplies and materials, at cost	1,547,977	1,617,162
Prepaid expenses	203,086	121,520
Non-current receivables		188,852
	2,368,556	2,424,817
	$64,114,047	$63,775,764

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BALANCE SHEET

R 31, 1968

December 31, 1967)

LIABILITIES

	1968	1967
CURRENT:		
Accounts payable and accrued charges	$ 1,447,375	$ 1,317,426
Income and mining taxes payable	1,411,347	569,752
Balance of dividends payable	318,000	260,562
Total current liabilities	3,176,722	2,147,740
DEFERRED INCOME TAXES (note 2)	92,000	
SHAREHOLDERS' EQUITY:		
Capital stock —		
Authorized:		
10,000,000 shares of no par value		
Issued:		
9,524,449 shares (note 1)	41,355,422	21,666,259
Earned surplus	19,489,903	39,961,765
	60,845,325	61,628,024
	$64,114,047	$63,775,764

On behalf of the Board:

W. S. ROW, Director.

J. H. STOVEL, Director.

AUDITORS' REPORT

To the Shareholders of
Kerr Addison Mines Limited:

We have examined the consolidated balance sheet of Kerr Addison Mines Limited and its wholly owned subsidiaries as at December 31, 1968 and the consolidated statements of operations, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 13, 1969.

CLARKSON, GORDON & CO.,
Chartered Accountants.

ying notes)

Consolidated Statement of Operations

For the year ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
MINE OPERATIONS:		
Value of production	$22,598,001	$22,311,767
Cost of metal production (net of recoveries under the Emergency Gold Mining Assistance Act)	15,709,885	15,198,429
	6,888,116	7,113,338
INVESTMENT AND OTHER INCOME:		
Dividends and interest (including income bond interest from Joutel Copper Mines Limited, 1968 — $121,465; 1967 — $119,315)	3,350,362	2,765,680
Equity in earnings of —		
Joutel Copper Mines Limited	652,059	90,076
Icon Sullivan Joint Venture	346,963	318,616
	4,349,384	3,174,372
Profit before the following	11,237,500	10,287,710
DEDUCT:		
Administrative and general expenses	457,807	505,439
Outside exploration expenses	1,228,812	856,672
Depreciation	561,081	541,369
	2,247,700	1,903,480
Profit before income and mining taxes	8,989,800	8,384,230
Provision for income and mining taxes	2,222,239	2,069,893
Net income for the year	$ 6,767,561	$ 6,314,337

Consolidated Statement of Earned Surplus

For the year ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
Balance at beginning of year:		
Kerr Addison	$21,281,724	$20,393,593
Normetal	7,680,055	7,173,306
Quemont	10,999,986	10,481,138
	39,961,765	38,048,037
ADD:		
Net income for the year	6,767,561	6,314,337
Gain on sale of investments and fixed assets	248,248	1,417,077
Recovery of prior years' income taxes (note 2)	90,550	
	47,068,124	45,779,451
DEDUCT:		
Dividends (including dividends paid by Normetal and Quemont up to date of merger)	5,285,550	5,714,212
Write-down of mining claims and properties to nominal value (note 6)	2,453,135	
Earned surplus balances of Normetal and Quemont capitalized as a result of merger (note 1)	19,689,163	
Costs and expenses in connection with merger	150,373	
Adjustment of prior years' allowances under the Emergency Gold Mining Assistance Act		103,474
	27,578,221	5,817,686
Balance at end of year	$19,489,903	$39,961,765

(See accompanying notes)

Consolidated Statement of Source and Application of Funds

For the year ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
SOURCE OF FUNDS:		
From operations —		
Net income for the year	$ 6,767,561	$ 6,314,337
Depreciation	561,081	541,369
Equity in undistributed earnings of Joutel Copper Mines Limited and Icon Sullivan Joint Venture	(652,059)	(408,692)
Decrease in deferred income taxes	(40,000)	
	6,636,583	6,447,014
Gain on sale of investments and fixed assets	248,248	1,417,077
Issue of capital stock under share options		281,671
Recovery of prior years' income taxes (note 2)	359,550	
Decrease in deferred and other expenses	56,261	436,185
	7,300,642	8,581,947
APPLICATION OF FUNDS:		
Dividends	5,285,550	5,714,212
Increase in investments	5,757,974	6,099,790
Fixed asset additions (net)	119,191	151,587
Merger costs and expenses	150,373	
Adjustment of prior years' allowances under the Emergency Gold Mining Assistance Act		103,474
	11,313,088	12,069,063
Decrease in working capital	(4,012,446)	(3,487,116)
Working capital at beginning of year	24,756,945	28,244,061
Working capital at end of year	$20,744,499	$24,756,945

(See accompanying notes)

Notes to Financial Statements

December 31, 1968

1. BASIS OF STATEMENT PRESENTATION

As of April 30, 1968 the undertaking, property and assets of Normetal Mining Corporation, Limited and of Quemont Mining Corporation, Limited were merged with those of the Company. Under the merger arrangements the assets and liabilities relating to the mining operations of Normetal and Quemont were first transferred to newly formed wholly owned subsidiaries. In exchange for the assets of Normetal and Quemont (including their investments in the newly formed mining subsidiaries but excluding shares of Kerr Addison already owned by them) Kerr Addison issued a total of 2,400,047 shares and assumed their remaining liabilities.

For accounting purposes the merger has been treated as a "pooling of interests".

As a result:

(a) The accompanying consolidated balance sheet at December 31, 1968 (which consolidates the accounts of the Company and the two new wholly owned mining subsidiaries) reflects the carry forward of the fixed assets, investments, etc. of the merged companies at the same book values as shown in their respective accounts at date of merger.

(b) The accompanying consolidated statement of operations for the year ended December 31, 1968 reflects the combined results of operations of the merged companies for the whole of the period January 1 — December 31, 1968.

(c) The comparative balance sheet and operating figures shown for the year 1967 reflect the combined financial position of the merged companies at December 31, 1967 and the combined results of their operations for the year ended on that date.

(d) The issue of 2,400,047 shares under the merger arrangements (which increased the total number of shares outstanding from 7,124,402 at December 31, 1967 to 9,524,449 at December 31, 1968) resulted in an increase in the Company's capital stock account to a figure of $41,355,422, made up as follows:

Issued share capital as shown in 1967 published accounts:

Kerr Addison	$13,649,277
Normetal	2,297,962
Quemont	7,224,338
	23,171,577
Less book value of inter-company shareholdings	1,505,318
	21,666,259
Add earned surplus balances of Normetal and Quemont at April 30, 1968 capitalized as a result of merger	*19,689,163
	$41,355,422

* In the absence of statutory authorization it is not considered permissible to carry forward these surplus balances as part of the earned surplus of the combined enterprise. Instead such balances have, in effect, been capitalized and are carried forward as part of the total issued capital of the combined enterprise.

2. Income Taxes

During the year $359,550 was received in partial settlement of prior years' income tax assessments under appeal. Of this amount $269,000 was set up to cover the deferred income taxes (net) of the consolidated companies as at December 31, 1967 not previously recorded (except by way of footnote to the financial statements). The balance of $90,550 has been credited to earned surplus.

Approximately $137,000 of the deferred income tax balance related to exploration expenditures on the property of Agnew Lake Mines Limited which were later capitalized and shown as the cost of the share investment in that company. This portion of the tax deferral has been deducted from the carrying value of the investment.

3. Investment in Partially Owned Subsidiary Companies

The investment in partially owned subsidiary companies is made up as follows:

	1968	1967
Joutel Copper Mines Limited (63.3% owned)		
Shares, at cost	$ 1,529,236	$ 1,529,236
Equity in accumulated earnings	742,135	*90,076
6% income debentures, at cost (par value 1968 — $2,112,500; 1967 — $2,006,800)	1,903,452	1,804,093
Agnew Lake Mines Limited (80% owned)		
Shares, at cost (less, in 1968, tax reductions of $137,000 relating thereto — note 2)	126,484	263,476
Advances		2,478,776
7% debentures, at cost (par value $6,400,000)	6,400,000	
Inactive subsidiary companies, at nominal value	1	1
	$10,701,308	$ 6,165,658

* Joutel Copper Mines Limited commenced production in commercial quantities on August 1, 1967.

The accounts of Joutel are not consolidated herein because of the substantial minority interest. The accounts of Agnew Lake are similarly not consolidated because of the minority interest and the fact that the company has not yet commenced operations.

4. Investments in Other Mining Companies

These investments represent shares and bonds of other mining companies which are being held on a relatively long-term basis. Such investments, which are carried at cost of $24,487,502, had a quoted market value on December 31, 1968 of approximately $60,039,000 (computed by pricing the individual holdings at the closing market quotations on that date). This amount does not necessarily represent the value of these holdings, which may be more or less than that indicated by market quotations.

5. Icon Sullivan Joint Venture

The balance sheet value of $627,877 represents the Company's equity in the net book value of the assets of the joint venture at December 31, 1968.

6. Mining Claims and Properties

Mining claims and properties, previously carried in the accounts at cost, were written down to nominal value during 1968 by a direct charge of $2,453,135 to earned surplus, made up as follows:

Kerr Addison mine	$1,318,987
Normetal mine	89,424
Quemont mine	1,044,724
	$2,453,135

7. Remuneration of Directors and Officers

Total remuneration paid to directors and senior officers during the year ended December 31, 1968 amounted to $178,825, and $160,644 in 1967.

Manager's Report

The Kerr Addison Mine

During the year 1968, 510,474 tons of ore were milled at an average rate of 1,395 tons per day. The average grade was 0.36 ounces of gold per ton, down from the 0.39 ounces per ton grade of 1967. The value of production was $6.82 million, down $720,000 from $7.54 million in 1967. The overall recovery of gold in the milling operation was 97.3%.

The decreased tonnage treated, the increased proportion being mined by underhand square-set and undercut-and-fill, and the higher labour costs are reflected in the increased cost of 71 cents per ton.

The rising costs of material again affected the costs of mining during 1968 with an increase of more than 10% in the cost of over 50% of the materials used.

Drifting, raising and cross-cutting totalling 1,217 feet and all stoping operations were confined to the No. 6, 14, 16, and 21 Orebodies between the 1300 and 4600-foot levels.

Ore broken by square-set methods accounted for 67.9% of the total ore compared to 68.4% in 1967. Undercut-and-fill tonnage increased to 55,738 tons or 11.2% of the ore broken. Pillar ore represented 38.3%, down slightly from the 39% for 1967.

At the end of 1968, proven ore reserves including allowances for dilution, were as follows:

	Tons	Ounces of Gold Per Ton
Total reserves at the end of 1968	3,249,128	0.46
Total reserves at the end of 1967	3,750,329	0.45

The total work force decreased from 715 to 704 and the underground work force increased from 473 to 489. With a general wage increase effective November 1st and an additional increase to all production workers underground, the labour situation stabilized and the work force reached full complement in November. Seventy percent of employees on the payroll December 31st, 1968, had more than one year of service with the Company.

A third training program under the Department of Labour was started in August. Since the incepiton of these training programs in 1967, 206 men have completed their training.

Timber continues to be the major material cost item. During 1968, 5.68 million board feet of lumber were consumed compared to 6.19 million board feet in 1967. Consumption of timber per ton milled is 11.1 board feet.

From the commencement of milling in May, 1938 to the end of 1968, production was 8,623,727 ounces of gold with a value of $309,483,652 from the treatment of 32,473,774 tons of ore with an average gold content of 0.266 ounces per ton.

The cooperation of the men at the mine, their immediate supervisors and Department Heads is appreciated. The continued support of the Senior Officers and Directors is acknowledged.

W. G. HARGRAVE,
Manager.

January 22, 1969.

Manager's Report

The Normetal Mine

During 1968 the concentrator treated 362,789 tons of ore, 358,557 tons of Normetal ore averaging 1.48% copper, 7.33% zinc, 0.027 ozs. gold and 1.79 ozs. silver per ton and 4,232 tons of adjoining Normetmar ore averaging 1.58% copper, 1.76% zinc and 0.58 ozs. silver per ton.

Production amounted to 10,049,697 lbs. of copper, 6,122 ozs. gold, 437,826 ozs. silver in copper concentrate; 46,811,800 lbs. of zinc in zinc concentrate and 14,719 tons of pyrite concentrate averaging 51.02% sulphur.

Milling averaged 991 tons per day compared to 957 in 1967. Mill feed during the year was 23% from No. 3 Shaft, 66% from No. 4 Shaft and 11% from No. 5 Shaft compared to 25%, 69% and 6% respectively in 1967. Operating cost per ton milled was 0.5% higher than in 1967.

Six diamond drill holes on claims staked in 1967 to the northwest of the mine failed to locate any intersections of interest.

Ore reserves as at December 31, 1968, after allowing for 15% dilution, are estimated as follows:

	Tons	Grade % Copper	Zinc
Copper-Zinc Ore	784,000	3.19	2.43
Zinc Ore	414,000	0.20	13.54
	1,198,000	2.15	6.25

Ore reserves showed a decline of some 38,000 tons more than the tons mined during the year due to a marginal block of ore failing to stand up to grade when tested by mining.

The railway handled 90,027 tons of concentrates and 1592 tons of freight.

Labour productivity was 2.93 tons per man shift compared 2.85 in 1967. The operating force was 477 at the year end compared to 483 at the end of 1967. The labour turnover was 8.0% compared to 9.7% in 1967. At the end of 1968 there were 92% of the employees with more than one year's service. A new three year collective agreement was signed in November.

From the commencement of milling in September 1937 to the end of 1968, production has been as follows:

Ore Treated	9,125,000 tons
Copper Contained in Copper Concentrate and Ore Shipped	212,230 tons
Zinc Contained in Zinc Concentrate	473,050 tons
Gold Produced for Sale	145,460 ounces
Silver Produced for Sale	12,966,800 ounces
Pyrite Concentrate Shipped	484,000 tons
Ore Milled for Others	18,000 tons

I am pleased to record my thanks and appreciation for the services rendered by the staff and employees at the mine. The assistance and support of the Officers and Directors of the Company are gratefully acknowledged.

R. J. ALLEN,
Manager.

January 15, 1969

Manager's Report

The Quemont Mine

During 1968 the concentrator treated 429,309 tons of ore averaging 0.127 ozs. gold and 0.79 ozs. silver per ton, 0.83% copper, 2.09% zinc and 43% pyrite.

Production amounted to 6,352,131 pounds of copper, 35,580 ounces of gold and 133,234 ounces of silver in copper concentrate; 7,219 ounces of gold and 76,937 ounces of silver in bullion; 13,536,649 pounds of zinc in zinc concentrate, and 124,649 tons of pyrite concentrate averaging 50.5% sulphur.

The mill treated an average of 1,173 tons per day during the year compared to 1,216 tons in 1967. This reduction was due to the continuing decrease in available working places. Sub-level stoping produced 68% of the tonnage and 32% came from cut-and-fill stopes.

Labour productivity was 4.55 tons per manshift compared to 4.48 tons in 1967. The total work force was reduced from 394 at the beginning of the year to 362 at the end. At year end, 96.5% of the employees had more than one year's service with the Company. The operating cost was 2.3% higher than for 1967 due to the lower tonnage treated and to a general wage increase on November 1st. A new three year collective agreement was signed in November.

Exploration drilling was discontinued in May and no further exploration is contemplated at this time.

At the end of the year, ore reserves were estimated to be 590,000 tons averaging 0.170 ozs. gold and 0.91 ozs. silver per ton; 0.89% copper, 2.22% zinc and 49% pyrite after an allowance for 10 per cent dilution. Ore reserves show a decline of 510,000 tons during the year. This is 81,000 tons in excess of the tonnage milled. A part of this tonnage was removed from the ore reserves when it became necessary to seal off and fill an area in the East Orebody, below the surface pillar, due to deteriorating pillar conditions.

From the beginning of milling operations in 1949 to the end of 1968, the plant has treated 14,382,000 tons of ore averaging 0.160 ozs. gold and 0.90 ozs. silver per ton, 1.34% copper and 2.46% zinc.

Products from this ore were concentrates and bullion containing:

Copper	178,100 tons
Gold	1,831,000 ozs.
Silver	7,480,000 ozs.
Zinc	266,200 tons
Pyrite Concentrate (to sulphuric acid plants)	3,345,000 tons

The able assistance rendered by the Department Heads and Staff is greatfully acknowledged. The continued support of the Officers and Directors of the Company is greatly appreciated.

W. D. JAMIESON,
Manager.

January 20, 1969

Breakdown of Supplies and Services

PURCHASED BY THE KERR ADDISON, NORMETAL AND QUEMONT MINES FOR THE YEAR 1968

Iron and Steel Products	$ 401,844
Tools and Machinery (Mine, Mill, Shops)	333,014
Reagents and Chemicals	454,879
Coal and Coke	23,498
Petroleum Products	97,389
Rubber Products	21,813
Lumber and Timber	1,060,256
Building Products (Miscellaneous)	274,429
Electrical Equipment	70,784
Air-Operated Equipment and Parts	105,915
Explosives	301,585
Refractories	8,291
Foodstuffs	17,167
Insurance	227,523
Miscellaneous	735,894
Sub-Total	4,134,281
Hydro-Electric Power	777,509
Freight and Express	918,910
TOTAL	$5,830,700
Total Paid in Wages and Salaries	$9,972,516
Provincial Mining Tax	421,816
Municipal and Sundry Taxes	196,654

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